FOOD
DEVELOPMENT
CENTRE

Growing Opportunities in Food

ANNUAL REPORT

2006/2007

A Special Operating Agency of Manitoba
Agriculture, Food and Rural Initiatives

Manitoba

Minister of Agriculture, Food
and Rural Initiatives

His Honour
The Honourable John Harvard
Lieutenant Governor of Manitoba
235 Legislative Building
Winnipeg, MB R3C 0V8

Your Honour:

As Minister Responsible, I have the privilege of presenting, for the information of Your Honour, the Annual Report of the Food Development Centre for the fiscal year ended March 31, 2007.

Sincerely,

Rosann Wowchuk

Rosann Wowchuk
Minister

Manitoba

Deputy Minister of Agriculture, Food and Rural Initiatives

Honourable Rosann Wowchuk
Minister of Agriculture, Food and Rural Initiatives
165 Legislative Building
Winnipeg, MB R3C 0V8

Dear Minister:

I have the privilege of presenting to you the Annual Report of the Food Development Centre (FDC) covering the year ended March 31, 2007.

The following achievements indicate FDC's past success and illustrate its role in economic development:

- development of 48 new food products;
- development of 4 organic products;
- facilitate the introduction of 16 new food products to the market;
- development of 3 bakery products from wheat-based ethanol co-products;
- commercial processing of 3 functional foods and meat products;
- nutritional analysis of 206 products;
- fee-for-service revenues of $615,000.

The 2006/2007 fiscal year saw FDC continue with its commercialization priority areas of meat, liquid food processing, functional foods and nutraceuticals, and recapitalization of assets through increased use of the pilot plant. In 2007/2008, FDC will continue its capital acquisition focus on providing a flexible technological landscape for its clients.

Sincerely,

Barry Todd
Deputy Minister and
Chief Executive Officer

TABLE OF CONTENTS

Activities of the Food Development Centre..... 5

FDC Organizational Chart..... 6

Vision, Mission, Goals..... 7

I. FDC'S Support Brings Industry Success..... 8

II. FDC Project Activities and Highlights..... 14

III. Financial Analysis..... 20

IV. Financial Statements..... 21

In 2006/2007
the activities of the Food Development Centre resulted in

the development of **48** new food products;

the development of **4** organic products;

assistance in the introduction of **16** new foods products to the market;

the development of **3** bakery products from wheat-based ethanol co-products;

commercial processing of **3** functional foods and meat products;

the nutritional analysis of **206** products;

fee-for-service revenues of **$615,000.**

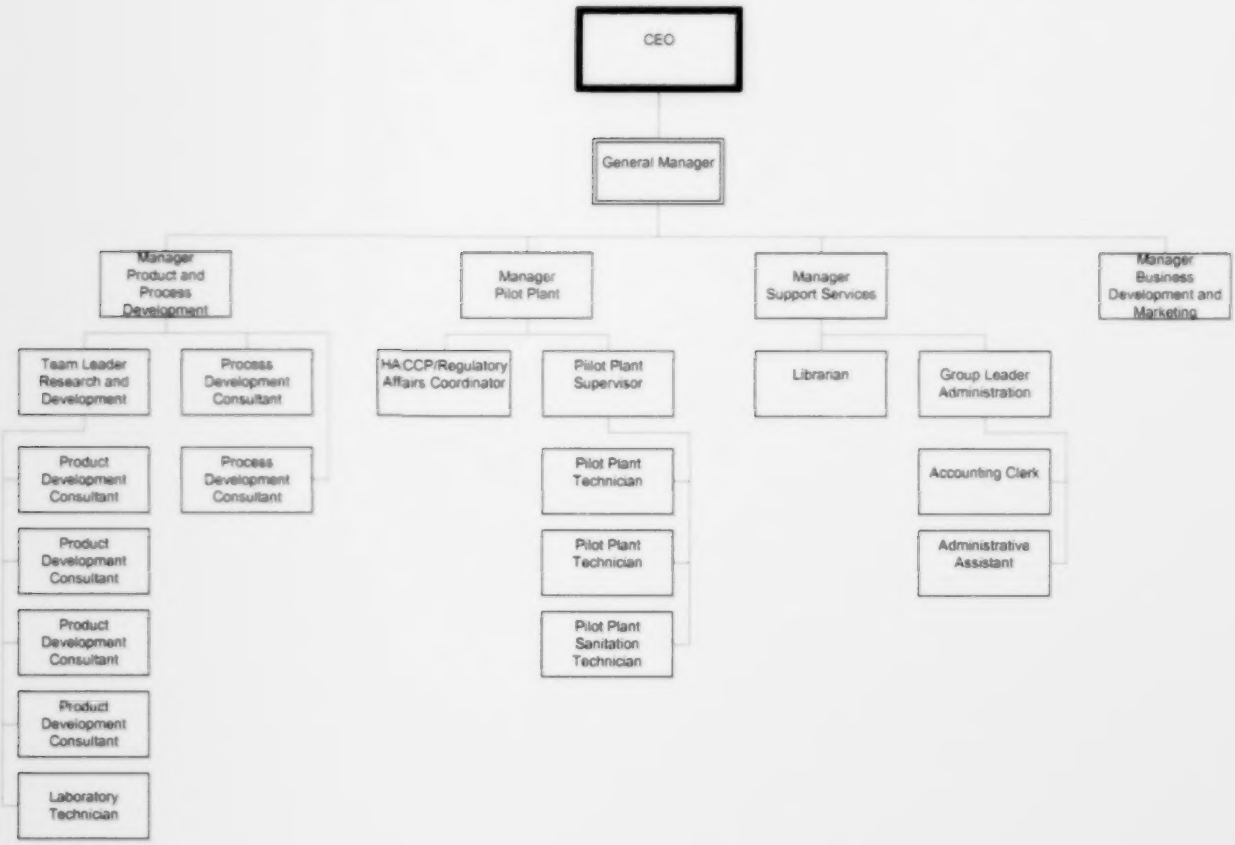
FDC leads Manitoba in Homegrown Innovation

FDC ORGANIZATIONAL CHART

Food Development Centre

Organizational Chart

2006/2007



Our Vision

Increased employment and wealth through enhanced development of Manitoba as a global source of high quality food products.

Our Mission

The Food Development Centre provides leadership in the creation, expansion and diversification of the agri-food industry through its industry networks and its expertise in food processing.

Our Goals

- To provide up-to-date, unbiased technical information to the agri-food industry, with emphasis on leading-edge technologies in product and process development
- To provide technical and federally accredited pilot plant services for the production of safe, high quality and wholesome food products
- To provide Manitoba with a unique liquid food packaging facility through a partnership with Great Plains Aseptic Processors
- To provide education and training to industry through technical seminars
- To create awareness of value-added processing of agri-food commodities and promote the capabilities of the Food Development Centre
- To ensure co-ordination and effective use of resources across the agri-food sector by liaising with industry, academia and government
- To participate in co-operative projects that will influence the production of primary products that may be processed within Manitoba

1. FDC'S SUPPORT BRINGS INDUSTRY SUCCESS

1.1 FDC Completes a Project for Manitoba Chicken Growers

In their search to find niche markets, the commercial chicken growers in Manitoba have determined that their customers are interested in an organic product and in Heritage chicken breeds. The University of Manitoba contracted FDC to conduct sensory, quality and nutritional analysis on Heritage breeds of chicken grown under specific treatments. FDC, in collaboration with the Faculty of Human Ecology, designed a sensory study to compare the meat from the Heritage chickens with the industry standard. Nutritional composition and quality attributes were also considered. The main objective was to determine the effect of breed (Ross, Red Bro and Red Ranger), age (5, 7 and 9 weeks) and diet (high density and low density diet) on chicken meat, based on sensory attributes, quality characteristics and nutritional composition. The Ross (breed) birds at 5 weeks of age were considered the control birds for this study since these standards represent current industry practices.

The sensory evaluation showed significant differences on the meat sensory attributes due to breed and age. Ross, the current industry breed, showed higher juiciness and tenderness scores and lower fibrousness and chewiness scores than the other breeds evaluated. The meat from young birds (5 weeks) was significantly juicer and less chewy than that from older birds (7 and 9 weeks). The effect of diet on the sensory characteristics of the meat was not significant. It varied according to breed and age. No significant differences were found for odour and flavour.

The quality evaluation indicated that the meat from younger birds (5 weeks) had lower cook loss than older birds. Breast meat from the Ross breed would tend to have higher water holding capacity as the age of the bird increased and higher moisture content with chickens fed a low density diet. Meat from the Red Bro and Red Ranger breeds appeared to have a nutritional advantage compared to the Ross breed due to the significantly higher values for protein and lower values for total fat. These results will assist the growers in their efforts to establish new markets.

1.2 FDC Helps Manitoba Company to Launch First Organic Hemp Beverage in North America

Fresh Hemp Foods Limited (FHF), a long time client of FDC, is a leading Manitoba-based company that processes, packages and markets food products made from high quality hemp seeds, including hemp oil, nut, butter, capsules and protein powder. FHF markets its products in Canada and in the United States and aggressively seeks new opportunities to develop and market new products.

FHF requested the assistance of FDC to develop a commercial formulation and process for production of three organic hemp beverages, including original, vanilla and chocolate. The guidelines were to target a protein level of 2.5%, use of all

natural organic ingredients, and the use of whole hemp seed for the base development.

The beverages development was carried out in collaboration with Great Plains Aseptic Processors (GPAP) using Tetra Pak aseptic processing and packaging technology, illustrating the unique capacity available at FDC for liquid food processing from research to commercialization. The products were made from organic hemp seeds and other organic ingredients in an organic approved FDC pilot plant. The beverages were packaged in 946 ml Tetra Brik aseptic slim cartons and are available across Canada and the United States under the brand name "Hemp Bliss". Hemp Bliss is the first organic hemp-based beverage in North America.

1.3 FDC Partners in the Launch of Major Brand Soups

GPAP requested the services of FDC to prepare soup formulations as directed by their client, Loblaws Brand Limited. The four soup varieties were: Butternut Squash, Carrot with Ginger and Lemon, Broccoli Parmesan and Tomato Herb. FDC worked with Loblaws to develop these products, which are now produced at GPAP's facility and marketed nationally in Canada.

1.4 FDC Helps a Manitoba Company Introduce a New Fast Food Concept in North America

King Pie Holdings (Proprietary) Limited ("KING PIE") is a puff pastry pie and fast food outlet franchise originally from South Africa. Established in 1993, KING PIE is a leader in its industry with a number of distinctive outlet types of fast food concepts that prepares more than 30 varieties of high quality fillings for its puff pastry pies. KING PIE is expanding its operations into North America starting from Canada with a base in Winnipeg. Currently, KING PIE has operations in Africa, Australia and Malaysia. A Manitoba-based company, Kudu Foods Ltd. contacted FDC regarding the research and development requirements to launch KING PIE puff pastry products in Manitoba and eventually throughout Canada.

The objective of the project was to provide facilities and staff to manufacture products that are based upon KING PIE specifications and recipes at FDC's pilot plant facility. This includes pilot plant scale preparation of the pie dough and 12 pie varieties (meat, vegetables and fruit) using ingredients supplied by Kudu Foods Ltd. for both pilot plant prototypes and the launching of samples; document preparation for label approval by the Canadian Food Inspection Agency (CFIA); manufacturing products for nutritional analysis with an external laboratory for selected pies; and drafting a Hazard Analysis Critical Control Points (HACCP) plan, which is required for all clients using FDC's pilot plant.

These products were successfully developed and assistance was provided for Kudu Foods Ltd. to obtain approval from CFIA to manufacture these products. The company is making plans to launch the opening of its first store in Winnipeg.

1.5 FDC Helps a Manitoba Company Market its Pea Fibre

FDC developed nutritional bars (Pulse Power Bars) using the recently approved novel pea fibre (from Best Cooking Pulses) and pea snacks for Pulse Canada. The products were handed out at trade shows in Honolulu, Hawaii, San Francisco, California and Winnipeg (Food and Wine Show). The products were very well received. Here is one of the excerpts from Pulse Canada's September report:

*"**American Dietetics Association Annual Meeting** – Pulse Canada attended the annual meeting of the American Dietetics Association on September 17-19 in Honolulu, Hawaii. Pulse Canada, together with the US Dry Pea and Lentil Council, had a booth at the trade show for this event. This conference is attended mostly by dieticians and health professionals. The question asked by almost everyone who visited the booth was "what are pulses?" Although most of the attendees are pulse consumers, they only know them as beans, peas, lentils, chickpeas. The dieticians were very interested in the fact sheets that summarized the research on the benefits of consuming pulses for prevention and management of chronic diseases, especially diabetes and CVD. At the booth, prototype products were handed out. These products were Pulse Power Bars (containing pea fibre) along with Roasted Pea Snacks. Both items were very well received by attendees. Most people wanted to know where they could buy the bars; some even said they were better than most other bars on the market. Most people thought the pea snacks were great – better than soy nuts – and thought they should be sold in vending machines. They also wanted to know where they could buy them. The full conference report for this event is available from Pulse Canada."*

1.6 A Well-Known Food Science Writer, Dr. Harold McGee, Visits FDC

Dr. Harold McGee, a well known food science writer visited FDC during his trip to Winnipeg to attend and speak at the 2006 Canada Cuisine Conference. An information sharing session was arranged for MAFRI and FDC staff to discuss new food trends. Dr. McGee was very pleased with the session and the services and capabilities of FDC as per his feedback:

"Just a note to thank you very much for organizing my very stimulating day at the Food Development Centre! It was a pleasure to talk with you and your colleagues and to see some of the important work you're doing. Two days later, I met the proprietors of DD Leobard Fruit Wines, and they told me how they wouldn't have been able to grow without your help—and now they're providing their expertise to the seabuckthorn project. Now that's an ideal example of public/private collaboration! Thanks again and best wishes, Harold."

1.7 FDC Offers a Seminar Series

Amy Lemay, President of VISTA Science and Technology was invited to give a seminar on "Maximizing the Innovation Outcomes of Research and Development".

Research and development plays a critical role in the innovation process, driving the future application of new knowledge and the development of new products and services that have significant social and commercial value. With limited resources for an increasingly competitive environment for funding/investment and growing expectations for the commercialization of publicly funded research and development, it is critical to prioritize and position research and development to maximize the broader social benefits and economic returns. VISTA Science and Technology is actively engaged in this research and has developed a framework for positioning, prioritizing, assessing and evaluating the commercial potential, economic impacts and broader social benefits of research and development.

Mr. Hermann Briel Prokuris of BANSS Meat Technology gave a seminar on meat processing technologies to FDC and MAFRI staff. Mr. Prokuris spoke on the use of robotics in meat production. The use of established, standard industrial robots in conjunction with cutting-edge PC technology opens up totally new fields of application. Special configurations are used to adapt the robots to the high hygiene requirements and stringent conditions found in the meat processing industry. Other topics included an overview of the meat industry in Manitoba and the resources available to industry for value-added processing.

1.8 FDC Develops and Produces Functional Bars for Clinical Studies

Forbes Medi-Tech Inc. (FMT) is a Vancouver, BC nutraceutical and functional food ingredients company. FMT requested assistance from FDC to produce and package bars containing three specific ingredients: Reducol™, RPL60 fat and black rice powder. The bars were for a clinical study FMT was conducting.

The goals of this project were: 1) to refine the FMT formulations to facilitate production at FDC and 2) to produce and package 1,326 control bars, 1,988 black rice powder control bars and 1,988 black rice powder and Reducol™ bars.

These products were successfully produced and the clinical studies are currently in progress. This was the first product packaged using the newly acquired flow wrapping machine for the pilot plant.

1.9 FDC Develops a Non-Timber Forest Product

FDC developed an extraction process for tannins, a non-timber forest product from white spruce for Technology Brokers on behalf of its clients. Technology Brokers Inc. is a consulting company based in Alberta.

Tannins extracted from wood bark can be used to replace adhesive from non-renewable sources (resorcinol), especially in the wood products industry. Viscosity of tannin extract is an important parameter in determining the functional properties of the adhesive. It is a common practice to use pH to control viscosity, but as previous work at FDC (March 2005) showed, it may also present solubility and

other processing challenges. Further work is required to determine the effect of pH on tannin stability while improving processing efficiencies. In addition, the type of drying methods used for the tannin extract may also have an effect on adhesive quality. While freeze drying and drum drying technologies were employed in the previous studies, insufficient trials were conducted to compare their effectiveness in tannin production.

This project sought to determine the effect of pH and its limitations in controlling the viscosity of tannin extract during processing. Various drying technologies (spray drying, drum drying and freeze drying) for the extract were evaluated in relation to production efficiency and quality of the tannins. The company hired a scientist from Manitoba to work on the project at FDC.

1.10 Ethanol Co-Products Utilization Research

Ethanol co-products research continues to generate much interest. FDC continues its research on processing of the co-products such as the thin stillage to produce products for food product development. Several products have been developed such as cookies, energy bars and confectionary products. A seminar organized by FDC provided partners and funding agencies (MRAC and ARDI), economic development officers and University of Manitoba students with an update on this project through presentations on:

- Overview of Ethanol Co-Products Research Program
- Wheat Based Ethanol Processing and Evaluation of the Co-Products for Food Applications
- Effect of Debranning on Wheat Starch and Protein Content for Ethanol Production
- Evaluation of Dehydration Technologies for Distillers Grain
- Development of Food Products with Distillers Grains

Samples of food products developed by FDC with the ethanol co-products were presented for taste testing. The seminar generated a lot of good discussions and the participants from the community of Minnedosa expressed interest in FDC holding a similar session in Minnedosa.

1.11 FDC Scientist Invited to Speak at International Ethanol Conference

FDC scientist, Jiancheng Qi, was invited to speak at the International Distillers Grains Conference in Minneapolis, MN. This was in recognition of our research project on ethanol co-products utilization. The conference was hosted by Distillers Grains Quarterly and facilitated by the BBI International. This first International Distillers Grains Conference and Trade Show (IDGC) attracted 350 delegates, including end users, producers, marketers, researchers and service providers from North America and worldwide. IDGC focused on industry issues related to distillers' grains produced from the fuel ethanol industry, especially from US dry-

mill ethanol plants. Topics included marketing, process technology, analytical measurement and terminology, transportation and storage, customer education and outreach, animal feed nutrition, and non-feed applications for the distillers' grains.

1.12 Functional Food and Nutraceutical Program

Several projects have been completed on this program which included the development of the following papers on seabuckthorn research at FDC for publication and presentation at the 3rd International Seabuckthorn Conference in Quebec from August 12-16, 2007. FDC submitted the following papers which were accepted for presentation at the conference:

- Supercritical Fluid Extraction of Seabuckthorn Seed Oil
- Evaluation of Processing and Nutritional Attributes of Seabuckthorn Berry Fractions of Indian Summer and Senensis Varieties
- Processing and Products Overview
- Utilization of Seabuckthorn Berry Pulp and Juice as Functional Food Ingredients
- Overview of Current and Emerging Processing Technologies for Seabuckthorn

FDC has initiated work on the development of a mobile steam distillation system for essential oils. An extensive literature review has been conducted and various technologies have been reviewed. FDC has established contact with Dr. Andre Belanger, Research Scientist with AAFC in Saint-Jean-sur-Richelieu who has done work on essential oils and is interested in working with FDC to design and build a system.

Several functional food products have been developed as follows:

- Development of seabuckthorn juice and juice powder
- Development of energy bar
- Development of sugar infused seabuckthorn
- Development of seabuckthorn jelly
- Development of fruit base for functional beverages

A seminar was organized to provide an update to MAFRI on this program.

1.13 Nutritional Labelling Service Line

Compliance and regulation issues continue to be a priority, as evolving food laws can be overwhelming for small business and entrepreneurs. FDC provides a regulatory consulting service that allows a business to focus on their business. Nutritional labelling and interpretation continues to be in demand for secondary education, MAFRI staff and entrepreneurs. Presentations on the topic of food labelling were provided at workshops entitled, "Food Processing in Manitoba: Adding Value to Your Product" in Arborg and Selkirk.

1.14 FDC Participates in International Youth Internship Program

Ines Zitterbart studied food chemistry in Bonn and graduated in April 2006, with a degree comparable to a Masters program. Ines came to Canada in June 2006 through the Young Workers Exchange Program after she met Barry Todd, MAFRI Deputy Minister and FDC CEO at the ANUGA trade show in Cologne, Germany in September 2005.

Ines worked at FDC as a Laboratory Technologist intern learning and developing testing protocols for food texture analysis using a specialized laboratory instrument, the Texture Analyzer, TA2Xi. She was exposed to other food testing methods at FDC, including microbiological analysis. Ines worked with the product development consultants to gain some experience in product formulations. Ines completed her program very successfully.

II. FDC Project Activities and Highlights

II.1 Business Model Review

The overall objectives of the Business Model Review are to:

- optimize service delivery
- gain the ability to proactively address changing market environments

FDC has been able to reposition itself as a market leader in the food development industry though recent infrastructure renewal initiatives. This process also necessitates that we revisit the way we do business. The Business Model Review process will assist in developing methods to best deliver the services to Manitoba.

The optimization of service delivery will focus on how to best deploy the current assets of FDC in the market. Such discussion will include, for example, the optimization of the proposal writing procedure

FDC must also be able to proactively address changing market demands. If, for instance, there is a development in the industry to aggressively use liquid foods as carrier of choice for the nutraceutical industry, then that need should be anticipated and addressed in a timely fashion. The three main variables that can be controlled are:

- organizational structure
- cost structure
- delivery mechanism and method

The organizational structure is essential to lay the foundation for an adaptable and flexible business unit. This will outline the specific functional lines that need to be

developed. It will further delineate how these lines will be able to effectively interact with each other.
The cost structure of FDC's service delivery must allow for a recapitalization (especially with respect to commercialization efforts) of its infrastructure in some instances, as well as be an efficient economic development tool for its clients in other situations.

Once the foundations of organizational structure and cost structure have been laid out, the delivery mechanism and method can be optimized. This micro view of the business will involve detailed business practices. These will include, for example, descriptions of an optimal proposal writing technique.

A preliminary review of the organizational structure review and delivery mechanism and method was presented to the FDC management team. An external accounting firm is currently reviewing FDC's cost structure. A final report is expected to be completed by October 2007.

II.2 Food Technology Centres Meeting

The Manager of Business Development attended the meeting of Food Technology Centres Network in PEI in July 2006.

The objective of the network is to strategically identify future capacity needs for new technology transfer and commercialization. This network will:

- Facilitate communications with industry and among the network members
- Broker collaboration and commercialization of basic and applied research
- Actively seek global innovations that can be commercialized for the good of Canadian companies
- Become a focal point for advocating investment in Canadian innovations and technology commercialization

A large portion of the meeting was used to review a questionnaire implemented to all of the network members. The major findings from the questionnaire were:

General Comments
- Smaller companies are being handled by current provincial strategies
- Confidentially is critical
- Capacity communication to all processing industry needs to be strengthened
- Industry is looking for commercialization expertise at all levels
- New technology – partnerships with industry is evident
- Pilot plant facilities are needed at all levels of industry

Key Findings
- Strategic overall positive feedback from those that have utilized the centres
- Strong functional experts on a national basis – industry relevance is important

- Food trend information is important as is market access – industry connector
- Swiftness to market and speed to service are important to all sizes of businesses

II.3 Pilot Plant Activities

- Clients from the meat sector approached FDC for commercial production, without the need to previously develop the product:

  - Karen's Country from B.C. produced organic chicken sausages on a trial basis.

  - Finer Feeds signed a contract to re-package organic chicken cuts. Labels were submitted to CFIA for approval and a HACCP plan developed for the process. Through the months, Finer Feeds introduced other cuts. Modifications in the HACCP plan took place due to the introduction of diced chicken, a process made at the pilot plant. This simple process represented the first client and product under the rules and regulations of the Meat Inspection Act.

  - Sunpeak Foods explored the possibility of producing their breaded chicken breast. The advantage of being a federal establishment makes FDC appealing to entrepreneurs willing to expand their market outside the boundaries of Manitoba. However, the trial was not successful. Pilot plant management suggested reproducing the process done by the client in a provincial facility at FDC under the federal standards and regulations. The client is going ahead with the suggestion in the new fiscal year.

- The fee-for-service target in the Business Plan was slightly surpassed, reaching $90,000.

- The clients utilizing FDC facilities included TS Foods, Greetalia, Common Sense Natural Products, Finer Feeds (Pop's Farms), Uske International, Keller Farms, Bells Berry Inc., Wortzman Foods, Kudu Foods Ltd., Fresh Hemp Foods, Prairie Lane Saskatoons, Calypso, Besco Grains Ltd., Nutri-Pea Ltd., Whitmann Foods, Ehrmann's Foods and Karen's Country (B.C.).

- The processing of mustard seed for Besco Grains Ltd. using the cold press was successful. The cold press was able to process even the tailings of the seeds, increasing the possibilities of economic feasibility. The client has a prominent buyer of their processed oil and cake from Korea.

- Pilot plant staff worked with research and development on elk burgers, seabuckthorn, pomegranate, hemp beverage and energy bars; the last two projects with the final intent of commercialization.

- The operation and maintenance for boilers, air compressors, RO system, refrigeration and floor heating system was out sourced. The company granted the contract was ATCO-Frontec from Portage la Prairie.
- New equipment that arrived in this fiscal year included an energy bar maker, meat mixer, and shear pump for the mayonnaise project.

- The minimum level of occupancy (at least two clients a day) was 74%.

- Difficulties with the refrigeration system were solved at the beginning of the fiscal year. Consistency of good record keeping was also needed to present to CFIA that the situation was under control and the repairs, adjustments and changes in design were appropriate.

- Replacement of the hot water lines was finished in this fiscal year. FDC purchased the small gas boiler unit as a back-up to allow servicing the boilers and still be able to provide hot water for sanitation purposes.

- Utility costs were monitored during the year with a 5% reduction from the previous year.

II.4 Hazard Analysis Critical Control Point (HACCP) Activities

- The target of three HACCP plans established in the Business Plan was accomplished. Four new HACCP plans were developed for hash browns, shortbread, chicken cuts and Birch Bay honey dill sauce. In addition, adjustments were made to the following HACCP plans – GPAP, saskatoon topping, pizza sauce.

- FDC has successfully finished the water test required under CFIA regulations and FDC written programs.

- Production under the OPAM regulations for organic products continues. Questions regarding applications for registration under OPAM are being fielded by the HACCP Coordinator from internal clients and external queries.

- Continued to work with FDC staff to ensure requirements under registrations and licenses are met on-site as written in the programs.

- The first on-site CFIA audit occurred at the end of November. It was a learning experience for all the people on the HACCP team and an acknowledgment of the work to come to correct deficiencies. FDC received a letter from CFIA congratulating the staff for successfully developing and implementing a HACCP system.

II.5 Marketing Activities

The marketing activities for the year include the following key actions and targets:

KEY ACTIONS	*TARGETS*
Promote services to 25 food processing companies and economic development agencies	15 food processing companies 12 economic development agencies
Participate in efforts to create a national strategy for all of Canada's food development centres	The next meeting for FoodTech Canada is scheduled in the first quarter of 2007/2008.
Promote FDC services within the value-added initiatives in Manitoba	Discussion continues of the Manitoba brand owner concept with a southwestern group of farmers. Attended MRAC meetings and press conferences.
Participate in the development and promotion of the functional food and nutraceutical cluster	FDC continues to participate in this development. FDC is the co-chair of the committee.
Support the development and transfer of technologies for functional foods and nutraceuticals	FDC made presentations in the form of a seminar to MAFRI and industry groups on the technologies for processing ethanol co-products into functional foods. The seminar was very well received and FDC has been requested to organize a similar seminar in Minnedosa. FDC initiated the development of steam distillation technology for the essential oil industry.
Support the integration of service delivery between FDC, Food Commercialization and GO Teams	Presentations have been made to all GO Teams. The interdepartmental food entrepreneur network continues. A meeting for the food entrepreneur team is scheduled in the first quarter of 2007/2008.
Review the business model	Review of the organizational structure has been completed. FDC's client flow will be described and analyzed in detail.
Review various models for pricing of its services	This is part of the Business Model Review.

Marketing and Educational Services Plans

FDC'S 2006/2007 Marketing Plan is a strategy to promote and develop Manitoba's agri-food industry through the heightened visibility of FDC and its new capabilities.

Delegations, groups and corporations hosted and toured at FDC include:

- Bayer Crop Sciences district manager and grain producers
- Russian crop and production scientists
- Director and Chair of the Center of Grain Farming in Kazakhstan

- King Pie Corporation of South Africa
- Local 4H clubs
- Sergio Avila Montoya of Productos Uvavina of Mexico
- Manitoba Beekeepers Association
- U of M food sciences professors
- Mr. Bao Feng, Chinese fish processor
- Trade Commissioner to Korea
- Brad Mcleod, Olds College Alberta
- Australian Nuffield Scholar
- National Farm Communications Conference
- U of M Students
- Cuisine Canada Conference
- Economic Development Officers and Producers
- Chinese Delegation
- Crocus Plains Collegiate
- Rural Team Manitoba
- Ag Canada and Senior Business Development Officers from Ottawa
- Manitoba Food Processors Association
- Waskada Area Producers
- Manitoba Hydro
- McGregor Collegiate
- POS Pilot Plant (Engineers), Saskatoon
- PESAI Functional Foods Tour
- Manitoba Agri-Health Research Network Tour
- Manitoba Government staff

Off site presentations and industry sessions include:

- Rural Forum in Brandon
- MFPA AGM in Winnipeg
- Manitoba CGA Association
- Portage Ag-Ex
- Swan River Ag Display
- Meat Processor, Kromar / Economic Development Officer, Virden
- Manitoba Ag Days, Brandon
- MAFRI Entrepreneur Session, Lower Fort Gary and Arborg
- Agriculture In The City, Winnipeg
- OPAM Spring Conference, Brandon
- Royal Manitoba Winter Fair, Brandon
- SIAL 2007 Conference, Montreal (display only)
- Manitoba Rural Adaptation Council AGM, Winnipeg

III. Financial Analysis

III.1 Summary Operating Results

FDC had a net income of $389.0 mainly as a result of increased fee-for-service revenue.

Revenue	**$3,905.0**
Expenses	
Salaries	1,301.0
Operating	2,215.0
Net Income	**$389.0**

III.2 Balance Sheet

Accounts Receivable – includes lease revenue and cost recoveries from building tenant net of a bad debt allowance (see Note 3 of attached Financial Statements).

IV. FINANCIAL STATEMENTS

FOOD DEVELOPMENT CENTRE

Financial Statements

Year Ended March 31, 2007

FOOD DEVELOPMENT CENTRE

Index to Financial Statements

Year Ended March 31, 2007

	Page
AUDITORS' REPORT	
FINANCIAL STATEMENTS	
Balance Sheet	2
Statement of Income and Retained Earnings	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 10
Administrative Expenses - *Schedule 1*	11

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of Food Development Centre, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba, as at March 31, 2007 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Exchange

Chartered Accountants LLP

Winnipeg, Manitoba
May 16, 2007

FOOD DEVELOPMENT CENTRE

Balance Sheet

(In Thousands)

March 31, 2007

	2007	2006
ASSETS		
CURRENT		
Cash and short-term deposits	$ 537	$ 278
Accounts receivable (*Note 3*)	671	84
Due from Province of Manitoba	269	1,377
Due from Agricultural Research and Development Initiative	525	
Prepaid expenses and deposits	59	76
Due from Food Safety Initiative	34	-
	1,895	1,815
PLANT AND EQUIPMENT (*Notes 2, 4*)	8,626	8,871
DEPOSIT IN JOINT VENTURE (*Note 5*)	200	200
FUNDS HELD ON DEPOSIT	-	80
SEVERANCE RECEIVABLE FROM PROVINCE OF MANITOBA (*Notes 6, 11*)	41	41
	$ 10,762	$ 11,007
LIABILITIES		
CURRENT		
Working capital payable (*Note 7*)	$ -	$ 332
Accounts payable and accrued liabilities (*Note 8*)	666	709
Accrued vacation payable (*Note 9*)	101	114
Unearned revenue (*Note 2*)	75	264
Due to Functional Food Classic	3	-
Current portion of long-term debt (*Note 10*)	18	18
	863	1,436
LONG-TERM DEBT (*Note 10*)	177	195
SEVERANCE LIABILITY (*Note 11*)	88	88
DEFERRED CAPITAL CONTRIBUTIONS (*Notes 2, 12*)	9,256	9,275
	10,384	10,994
EQUITY		
Retained earnings (deficit)	378	13
	$ 10,762	$ 11,007

COMMITMENT (*Note 17*)

FOOD DEVELOPMENT CENTRE

Statement of Income and Retained Earnings

(In Thousands)

Year Ended March 31, 2007

	2007	2006
REVENUE		
Grants - Province of Manitoba	$ 2,311	$ 2,229
Fee for service	615	908
Lease income	309	316
Interest and other income	80	44
Amortization of deferred capital contributions (Note 12)	590	484
	3,905	3,981
DIRECT OPERATING EXPENSES		
Lab supplies	98	109
Purchased services	221	254
Travel	47	64
Salaries and benefits	1,301	1,290
Postage, courier and telephone	51	51
Printing and stationery	14	13
Marketing	27	27
Library	20	21
Sales tax office	4	2
	1,783	1,831
GROSS PROFIT	2,122	2,150
ADMINISTRATIVE EXPENSES (Schedule 1)	1,733	2,271
NET INCOME (LOSS)	389	(121)
RETAINED EARNINGS (DEFICIT) - BEGINNING OF YEAR	(11)	110
RETAINED EARNINGS (DEFICIT) - END OF YEAR	$ 378	$ (11)

FOOD DEVELOPMENT CENTRE

Statement of Cash Flows

(In Thousands)

Year Ended March 31, 2007

	2007	2006
OPERATING ACTIVITIES		
Cash receipts from customers	$ 1,145	$ (1,442)
Cash receipts from grants	2,311	2,427
Cash paid to suppliers and employees	(2,253)	(2,415)
Interest received	(525)	72
Interest paid	(122)	(181)
Interest received	11	17
Cash flow from (used by) operating activities	567	(1,522)
INVESTING ACTIVITY		
Purchase of plant and equipment	(698)	(584)
Cash flow used by investing activity	(698)	(584)
FINANCING ACTIVITIES		
Due from Food Safety Initiative	(34)	
Due to Functional Food Cluster	3	
Deferred capital contributions	571	1,568
Repayment of long-term debt	(18)	(18)
Cash flow from financing activities	522	1,550
INCREASE (DECREASE) IN CASH	391	(556)
CASH (DEFICIENCY) - BEGINNING OF YEAR	(54)	502
CASH (DEFICIENCY) - END OF YEAR	$ 337	$ (54)
CASH (DEFICIENCY) CONSISTS OF:		
Cash	$ 337	$ 278
Working capital payable		(332)
	$ 337	$ (54)

FOOD DEVELOPMENT CENTRE

Notes to Financial Statements

(In Thousands)

Year Ended March 31, 2007

1. NATURE OF ORGANIZATION

Established in 1977, as part of the Manitoba Research Council, the Food Development Centre (the "Centre") serves the agri-food industry by providing a wide range of services in the food, feed and beverage industries. The Centre offers food product development research, testing services and assistance with technology transfer to enable industry to efficiently and economically produce high quality foods.

Effective April 1, 1998, the Centre was designated as a Special Operating Agency by regulation under The Special Operating Agencies Financing Authority Act made by the Lieutenant Governor in Council.

The Centre is financed through the Special Operating Agencies Financing Authority (SOAFA). The Financing Authority has the mandate to hold and acquire assets required for and resulting from Centre operations. It finances the Centre through repayable loans and working capital advances. The financial framework enables the Centre to operate in a business-like manner according to public policy expectations.

A Management Agreement between the Financing Authority and the Minister of Rural Development, being the Minister responsible for the Agencies at that time, assigns responsibility to the Centre to manage the account for the Centre related assets and operations on behalf of the Financing Authority.

The Centre is a part of the Department of Agriculture, Food and Rural Initiatives under the general direction of a General Manager and a Chief Executive Officer, and ultimately the policy direction of the Deputy Minister and Minister.

The Centre remains bound by relevant legislation and regulations.

The Centre is economically dependent upon the Province of Manitoba, as it derives a significant portion of its revenue from the Province. The transactions with the Province of Manitoba are recorded at the exchange amount, which is the amount agreed upon by both parties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within the reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Plant and Equipment

Equipment, donated as part of the conversion to a Special Operating Agency, April 1, 1998, is stated at its estimated fair value as determined by the Province of Manitoba. Plant and equipment are stated at cost less accumulated amortization. Plant and equipment are amortized over their estimated useful lives at the following rates and methods:

Building	15 years	straight line method
Equipment and sign - expansion project	15 years	straight line method
Equipment and sign	20%	declining balance method
Computer hardware and software	5 years	straight line method

(continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other Assets

Research and development costs are expended as incurred.

Unearned Revenue

Unearned revenue represents cash received for projects that were started but not completed by year end.

Revenue Recognition

Fee for service revenue is recognized on the percentage of completion basis and when collection is reasonably assured.

Lease income is recognized as revenue according to the terms of the lease.

All grants received have been recognized as income in the current year.

Funds received from the Province of Manitoba and the Government of Canada for the construction of the new building and purchase of equipment have been treated as deferred capital contributions and will be taken into income to match the amortization of the building and equipment.

3. ACCOUNTS RECEIVABLE

The accounts receivable balance is comprised of the following amounts:

	2007	2006
Trade accounts receivable	$ 1,975	$ 1,171
Allowance for doubtful accounts	(1,304)	(1,037)
	$ 671	$ 84

4. PLANT AND EQUIPMENT

	Cost	Accumulated amortization	2007 Net book value	2006 Net book value
Equipment and sign	$ 3,784	$ 908	$ 2,876	$ 2,749
Computer hardware and software	89	75	14	16
Building	6,590	854	5,736	5,806
	$ 10,463	$ 1,837	$ 8,626	$ 8,571

There was a water delivery system failure in October 2005 which required the hot water lines to be replaced at a cost of $270, which is included in the Building cost. Part of the costs may be covered under insurance. However, at year end, there is no certainty as to whether an amount is receivable from the insurance company.

5. DEPOSIT IN JOINT VENTURE

The Centre contributed $200 towards the purchase of a piece of equipment for Great Plains Aseptic Processors Ltd. (GPAP). To date, no formal agreement has been finalized as to the revenue sharing arrangement from this piece of equipment.

GPAP and the Centre have committed to negotiating a lease, and having it in place by October 2007 for the period beginning April 1, 2008.

GPAP has committed to obtaining the release of any secured interests and transferring ownership of the piece of equipment, mentioned above, to the Centre. Subsequent to year end, the bank released the secured interest of the equipment. Therefore, it is a matter of obtaining legal documentation regarding the transfer of the equipment. At March 31, 2007, the accounts receivable for GPAP has been reduced to $323 (800 CAD) to reflect the book value of the equipment that has yet to be transferred. The balance of the receivable is to be forgiven after the transfer of the equipment to the Centre.

6. SEVERANCE RECEIVABLE FROM PROVINCE OF MANITOBA

The receivable from the Province of Manitoba is for severance pay benefits earned by the employees of the Centre to March 31, 1998. The receivable, or portion thereof, will be collected in the event that there is a cash shortfall. However, this is only likely to happen on the dissolution of the Centre.

7. WORKING CAPITAL PAYABLE

The Centre has an authorized line of working capital from the Province of Manitoba of $1,000 of which $Nil was used as at March 31, 2007 (2006 - $332 was used).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Trade	$ 514	$ 241
Interest	139	154
Sales tax	13	(6)
	$ 666	$ 389

9. ACCRUED VACATION PAY

The employees of the Centre are entitled to vacation pay in the current year, based on the prior year's employment. A provision for this liability has been recorded in the financial statements.

10. LONG TERM DEBT

	2007	2006
Province of Manitoba loan bearing interest at 5.80% per annum, with annual principal payments of $18 plus interest. The loan matures on April 30, 2017.	$ 195	$ 213
Amounts payable within one year	(18)	(18)
	$ 177	$ 195

Principal repayment terms are approximately:

2008	$ 18
2009	18
2010	18
2011	18
2012	18

11. SEVERANCE LIABILITY

Effective April 1, 1998, the Centre commenced recording accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of twenty-four years, by the weekly salary at date of retirement, provided the employee reaches nine years of service and retires from the Centre. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Centre employees to March 31, 1998. This responsibility is reflected by a $43 receivable from the Province of Manitoba.

An actuarial report was completed for the severance pay liability as of March 31, 2005. The report provides a formula to update the liability on an annual basis. The Centre's actuarially determined net liability for accounting purposes as at March 31, 2007 was $88 (2006 - $78). Commencing in the 2006 fiscal year the actuarial gain of $14 is being amortized over the 15 year expected average remaining service life of the employee group.

12 DEFERRED CAPITAL CONTRIBUTIONS

	2007	2006
Balance, beginning of year	$ 9,275	$ 8,261
Add: Contributions received		
Province of Manitoba	71	873
Government of Canada	500	695
Less: Amount amortized as revenue	(590)	(554)
Balance, end of year	$ 9,256	$ 9,275

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of equipment and construction of a building. The amortization of contributions is recorded as revenue in the statement of income and retained earnings.

The Centre received a loan from the Province of Manitoba for $2,625 bearing interest at 5.63% per annum with annual payments of $175 plus interest. The loan matures on May 18, 2019. The loan is to be repaid through future appropriations from the Province of Manitoba and therefore has been treated as a grant and recorded as deferred capital contributions to be consistent with the accounting presentation adopted by the Province of Manitoba.

As the future principal and interest payments will be funded by the Province of Manitoba, the annual principal repayment will be netted against the grant revenue received and the interest payment will be reflected as interest expense. The deferred capital contributions will be brought into income at the same rate as the corresponding building is being amortized.

13 DEFICIENCY IN ASSETS

The Special Operating Agencies Financing Authority and the Manitoba Provincial Government entered into a Transfer Agreement respecting the transfer, from the Provincial Government to the Financing Authority, of the net assets required for the continuing operations of the Centre. As at April 1, 1996, the date of transfer, the liabilities assumed exceeded the value of the assets in the amount of $35. This amount was recorded as the deficit at April 1, 1996.

14 PENSION BENEFIT

In accordance with the provisions of The Civil Service Superannuation Act, employees of the Centre are eligible for pension benefits under the Civil Service Superannuation Fund. This pension plan is a defined benefit plan, which requires the Centre to contribute an amount equal to the employee's contribution to the Fund for current services. The amount contributed and expensed by the Centre in the current year was $70 (2006 - $71).

The Centre has no further liability associated with the annual cost of pension benefits earned by the Centre's employees.

15 PUBLIC SECTOR COMPENSATION DISCLOSURE

It is a requirement of the Public Sector Compensation Disclosure Act that annual public disclosure be made of individual compensation exceeding $50 annually to any officer or employee of the Province of Manitoba. The following employees received compensation in excess of $50:

Utioh, Alphonsus	Process and Product Development Manager	$ 88
Scott, Pat	General Manager	70
Lalla, Mike	Manager, Support Services	77
Qi, Jiacheng	Process Development Engineer	65
Schmalgen, Markus	Marketing Manager	78
Niven, Meeling	Product Development Team Leader	64
Brodie, Ron	Marketing Coordinator	52
Henuset, Alana	Product Development Consultant	52
Plamnich, Javier	Manager, Pilot Plant and Commercial Activities	69

16 RELATED PARTY TRANSACTIONS

The following is a summary of the Agency's related party transactions:

	2007	2006
Province of Manitoba		
(Special Operating Agency of the Province of Manitoba)		
Receivable from the Province of Manitoba	$ 269	$ 1,373
Grants received	2,311	2,423
Capital contribution received	71	873
Property taxes paid	147	182
Occupancy costs paid	556	409

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

17 COMMITMENT

The Centre is obligated to make payments to Workers Compensation for an employee currently on disability. The total financial impact on the Centre is not determinable since the length of time the payments will be required is unknown.

18 FINANCIAL INSTRUMENTS

The Centre's financial instruments consist of cash and short term deposits, accounts receivable, due from Province of Manitoba, due from Food Safety Initiative, funds held on deposit, severance receivable, working capital payable, accounts payable and accrued liabilities, accrued vacation payable, due to Functional Food Cluster, long-term debt, and severance liability. Unless otherwise noted, it is management's opinion that the Centre is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

FOOD DEVELOPMENT CENTRE

Administrative Expenses

(Schedule 1)

Year Ended March 31, 2007

	2007	2006
Accreditation and licensing fees	$ 6	$ 7
Advisory committee fees	-	1
Amortization	641	637
Bad debts	267	675
Computer expenses	64	71
Equipment rentals	76	51
Insurance	52	40
Interest and bank charges	-	1
Interest on long term debt	122	181
Memberships	6	7
Occupancy expenses	556	459
Professional fees	53	14
Property taxes	147	105
Rental	-	2
Repairs and maintenance	65	80
Research and development	3	19
Staff relocation	34	9
Training	10	19
Expense recoveries	(369)	(1,004)
	$ 1,733	$ 2,321